

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AF-08 ARA-06 EA-07 NEA-10 IO-13 FEA-01
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
EB-07 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
TRSE-00 ACDA-07 PA-01 PRS-01 /146 W
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R 221645Z DEC 76
FM AMEMBASSY ROME
TO SECSTATE WASHDC 1888
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CARACAS
AMEMBASSY COPENHAGEN
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AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY JAKARTA
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AMEMBASSY LUXEMBOURG
AMEMBASSY MUSCAT
AMEMBASSY PARIS
AMEMBASSY QUITO
AMEMBASSY TEHRAN
AMCONSUL FLORENCE
AMCONSUL GENOA
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AMCONSUL TURIN
USMISSION EC BRUSSELS
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E.O. 11652: N/A

TAGS: ENRG, IT

SUBJECT: OPEC PRICE DECISION: ITALIAN REACTION

REF: EC BRUSSELS 12479 (NOTAL)

SUMMARY: OFFICIAL REACTION TO DOHA MEETING AND PRICE DECISION VIRTUALLY NON-EXISTENT; PRESS COMMENTARY EXTENSIVE. INITIAL TENDENCY TO EMPHASIZE OPEC DIVISIONS PLAYED DOWN IN LATER COMMENTARY. EC COMMISSIONER CHEYSSON'S COMMENTS THAT EUROPE, NOT US, WILL BEAR MAJOR BURDEN OF INCREASE WIDELY NOTED. ANY PRAISE FOR SAUDI/EMIRATES RESTRAINT MUTED BY REALIZATION THAT ITALY WILL BE PARTICULARLY SERIOUSLY AFFECTED BY INCREASED 1977 OIL BILL, ESTIMATED BY SOME TO REACH \$860 MILLION. END SUMMARY

1. RECENT OPEC MEETING IN DOHA AND SUBSEQUENT DUAL PRICING DECISIONS RECEIVED AMPLE COVERAGE IN ITALIAN MEDIA. OFFICIAL REACTION-PUBLICLY, ANYWAY--WAS LIMITED TO BRIEF STATEMENT BY PRIME MINISTER ANDREOTTI THAT INCREASE CAME AT DIFFICULT TIME FOR ITALY AND THAT ITALIAN EXPORTS WOULD HAVE TO BE STIMULATED. MEDIA REACTION EMPHASIZED OPEC DISACCORD OR CONSEQUENCES FOR ITALY. SPIRIT OF MEDIA COVERAGE CAPTURED IN HEADLINES: "OIL: THE PETROLEUM PRODUCERS' FRONT BROKEN" (CORRIERE DELLA SERA, 12/18); "LESS ONEROUS THAN EXPECTED" (IL MESSAGGERO, 12/18); "SUNSET ON THE PETROCRACY" (CORRIERE DELLA SERA EDITORIAL, 12/18); "RAIN (OIL) ON THE DRENCHED" LIMITED OFFICIAL USE

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(24 ORE/IL SOLE, 12/18); AND "BEHIND THE SCENES AT DOHA-PETROLANDIA TOWARDS A DECLINE" (IL TEMPO, 12/19). SUBSEQUENT COVERAGE AND COMMENTARY TENDED TO PLAY DOWN EFFECTS OF OPEC SPLIT, I.E., "IT IS A LITTLE EARLY TO SAY THAT OPEC IS UNDONE" (24 ORE/IL SOLE, 12/19). ANALYSIS AND COMMENTS CENTERED AROUND FOLLOWING THEMES:

--OPEC FUTURE: DESPITE AGREEMENT TO DISAGREE AT DOHA, MOST COMMENTATORS CONCLUDED THAT OPEC REMAINS A SIGNIFICANT INSTITUTION WHICH CANNOT BE DISCOUNTED. NEVERTHELESS, OPEC CAN NO LONGER FORCE SITUATION AS IT DID IN 1973. FACT THAT SPLIT OCCURED BECAUSE OF INTERNAL OPEC PRESSURES AND NOT BECAUSE OF CONSUMING COUNTRY EFFORTS NOTED.

--SAUDI ARABIA: AMPLE COVERAGE GIVEN TO YAMANI'S REMARKS RE POLITICAL QUID PRO QUO; THAT IS, RESTRAINT IN PURSUIT OF RESULTS IN CIEC AND TOWARDS MIDDLE EAST SOLUTION. ONLY SOCIALIST PARTY (PSI) DAILY AVANTI*, HOWEVER, CALLS FOR DC CONCES-

SIONS IN CIEC (ALTHOUGH EC COMMISSIONER CHEYSSON'S REMARKS ARE PICKED UP MOST MEDIA--SEE BELOW).

--DISTRIBUTION OF BURDEN: VIRTUALLY ALL PAPERS ECHOED CHEYSSON'S REMARKS THAT OUTCOME OF MEETING REPRESENTED BURDEN THAT WOULD FALL HEAVIER ON EUROPE THAN US. CHEYSSON QUOTED AT LENGTH BY SOME PAPERS, INCLUDING COMMUNIST PARTY (PCI) DAILY UNITA'. ALL PRESS REPORTS EMPHASIZED THAT BURDEN WOULD FALL PARTICULARLY ON ITALY WHICH MUTED ANY TENDENCY TO RECOGNIZE SAUDI/ZMIRATE RESTRAINT (SEE PARA 2 BELOW).

--MAJOR OIL COMPANIES: FORTUNATE POSITION OF ARAMCO COMPANIES (EXXON, MOBIL, SOCAL, TEXACO) MENTIONED BY PRESS; MORE GENERALLY, COMMENTATORS SEE THAT ALL COMPANIES WILL HAVE MORE MANEUVERING ROOM VIS-A-VIS BOTH PRODUCER AND CONSUMER GOVERNMENT EFFORTS TO DETERMINE DISTRIBUTION AND PRICING PRACTICES. MOST FEAR THAT COMPANIES WITH ACCESS TO CHEAPER SAUDI AND EMIRATE CRUDE WILL NOT PASS SAVINGS ON TO CONSUMERS.
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2. EFFECT ON ITALY HAS TWO DIMENSIONS: COST AND DIFFICULTIES IN MAINTAINING ADMINISTERED PRICE SYSTEM FOR PETROLEUM PRODUCTS AND THUS, RELATIONS WITH INTERNATIONAL COMPANIES.

(A) COST. NO COMMENTATOR FORESAW SUBSTANTIAL SHIFT TO SAUDI CRUDE, EVEN IF PRODUCTION ALLOWED TO GROW AS INDICATED BY YAMANI. ASSUMING THAT CONSUMPTION WILL REMAIN LARGELY UNCHANGED FROM 1976 AND NO CHANGE IN SOURCE OF SUPPLY, NEWSPAPERS CALCULATE THAT OPEC PRICE DECISION WILL ADD \$800-860 MILLION TO ITALY'S OIL IMPORT BILL. ACCORDING TO PRESS REPORTS, MINISTER OF FOREIGN TRADE OSSOLA ESTIMATED ADDITIONAL COST AT 500 BILLION LIRE AND STATE OIL COMPANY ENI AT 200-350 BILLION. MOST SOURCES RELUCTANT TO ESTIMATE LIRA COST BECAUSE OF EXCHANGE RATE UNCERTAINTY.

(B) DOMESTIC CONSIDERATIONS. ALL CITE ENORMOUS PROBLEMS FACING ENTITIES RESPONSIBLE FOR SETTING GOI-ADMINISTERED MAXIMUM PRICE LEVELS FOR PETROLEUM PRODUCTS, WHICH ARE BASED ON AVERAGE COST OF RAW MATERIAL PLUS COSTS OF TRANSPORTATION, REFINING, DISTRIBUTION, ETC. PARTICULARLY THORNY WILL BE POLICY PROBLEM CAUSED BY DIFFERENTIAL ACCESS TO SAUDI CRUDE; IN ITALY, EXXON SUBSIDIARY ESSO ITALIANA OBTAINS ABOUT 75 PERCENT OF ITS SUPPLIES IN SAUDI ARABIA. THE OTHER COMPANIES, NATURALLY, ARE MUCH LESS FAVORED. NO EASY SOLUTIONS EXIST BUT GOI HAS INDICATED THE RAW MATERIAL COST INCREASES WILL BE PROMPTLY REFLECTED IN MAXIMUM PRICE LEVEL ADJUSTMENTS. BEAUDRY

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